



## Investment Thesis

# Aave

## AAVE

### Basic Information

Token type	Governance Token
Price	\$1.95
GCCS Classification	Lending, Decentralized Finance, Governance Token
Sector	Decentralized Finance

Source: CoinGecko, Data as of November 4, 2024

### Key Metrics

Price Range (1Y)	\$78.16- \$171.99
All-Time High	\$661.69
All-Time High Date	18 May 2021
Down From All-Time High	80.60%
Market Capitalization	\$1.99B
Volume (24h)	\$180.04M
Circulating Supply	15M AAVE
Max Supply	16M AAVE
Total Value Locked (TVL)	\$13.36B
Annualized Protocol Revenue	\$35.92M

Source: CoinGecko, DeFiLlama, Artemis  
Data as of 4 November 2024

### Overview

**Aave is a leading decentralized lending protocol on Ethereum**, enabling users to act as depositors or borrowers in a secure, overcollateralized system. Depositors earn passive income by providing liquidity, while borrowers have access to loans backed by their collateral. If a loan's collateralization ratio falls below the required threshold, the position is liquidated by automated "keepers" to repay the debt and maintain solvency. Aave supports two market types:

- **Conventional ERC-20 tokens**, such as ETH, USDC, GHO, and DAI, for traditional lending.
- **Liquidity pool (LP) tokens from decentralized exchanges** like Uniswap, offering advanced yield opportunities.

Interest rates are dynamically optimized based on debt utilization, ensuring efficient liquidity allocation. The Aave Protocol supports flash loans, a DeFi innovation providing instant, uncollateralized loans that must be repaid with interest in the same transaction. Smart contracts ensure repayment, eliminating counterparty risk and enabling users to access liquidity for arbitrage or liquidation opportunities. Additionally, credit delegation allows users to allocate their collateral to trusted borrowers, broadening the system's flexibility.

The AAVE token grants holders voting rights to influence governance decisions and a share of the protocol's value. AAVE holders can stake their tokens in the Safety Module, an insurance system designed to cover unexpected losses, earning rewards for contributing to protocol security.

- In **2017**, Stani Kulechov founded Aave (originally called ETHlend) after raising \$16.2 million in an Initial Coin Offering (ICO).
- In **2020**, the Aave Protocol was launched.
- In **January 2022**, Aave launched its **"permissioned" DeFi platform for institutions, Aave Arc**.
- In **March 2022**, Aave V3 (the third version of the protocol) launched on six different chains, including Avalanche, Fantom, and Polygon.
- In **July 2023**, Aave launched **GHO** – a fully collateralized dollar-pegged stablecoin governed by AAVE holders, with currently **\$174.6M in circulation**. Instead of liquidity providers receiving most of the interest paid as with usual Aave loans, the Aave DAO collects **100%** of GHO's interest.

### Key Takeaways

- Aave is one of the largest decentralized lending platforms, offering secure, overcollateralized loans with a \$13.36B in TVL, spanning multiple blockchains, including Ethereum, Polygon, and Avalanche.
- Introduced flash loans for instant liquidity and credit delegation, enabling flexible, overcollateralized lending.
- The AAVE token powers governance and incentivizes staking via the Safety Module, protecting against unexpected losses.

### Risk Factors

- **Smart Contract Risk:** As with any DeFi protocol, Aave is susceptible to smart contract exploits or bugs, potentially leading to loss of funds.
- **Oracle Risk:** Reliance on oracles for price feeds may lead to delayed updates during market volatility or network congestion, increasing the risk of cascading liquidations.
- **Stablecoin Risk:** Heavy reliance on GHO as a revenue source could expose the protocol to risks associated with stablecoins, such as depegging events.

## Price Performance



Source: CoinGecko. Data from November 5, 2020 - November 4, 2024

## Total Value Locked



Source: Artemis. Data from November 5, 2021 - November 4, 2024

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